

BEFORE THE PUBLIC SERVICE COMMISSION
OF THE
COMMONWEALTH OF KENTUCKY

PUBLIC HEARING HAD ON THE 5TH DAY OF OCTOBER, 2000, IN
LONDON, KENTUCKY

ADMINISTRATIVE CASE NO. 384

BEFORE THE PUBLIC SERVICE COMMISSION, MARTIN J.
HUELSMANN, CHAIRMAN, GARRY W. GILLIS, COMMISSIONER, AND
EDWARD J. HOMES, VICE-CHAIRMAN.

ALLEN McCLUNG & ASSOCIATES
Certified Court Reporters/Videographers
P.O. Box 176215
Covington, Kentucky 41017
859.331.4292
amcclung@fuse.net

1 MR. HUELSMANN: Welcome. We thank you. We're
2 from the Public Service Commission in Kentucky and
3 want to welcome you to this public hearing. I'm
4 Martin Huelsmann and I'm the chair. Vice-chair is
5 Edward Holmes, seated to my left. And on my right is
6 Commissioner Gillis.

7 The PSC opened up an administrative case to
8 look into the rise of natural gas prices in Kentucky
9 and because we're very concerned about them; we're
10 concerned about them in particular in the State of
11 Kentucky.

12 We intend to look in the course of our
13 investigation at the price increases, the availability
14 of supply for the winter and the future, and look at
15 how gas companies are providing information to help
16 consumers, low-income consumers consumer assistance
17 programs, discount policies, as well as disconnect
18 policies. In short, this is a fact-finding matter in
19 which we want to hear from all interested parties.

20 The PSC wants to thank Secretary Viola
21 Miller for the Cabinet of Families and Children as
22 well as Secretary James Bickford for the Natural
23 Resources and Environmental Protection Cabinet, as
24 well as Ron McCloud, from the Public Protection
25 Cabinet that governs us. You'll be hearing from those

1 cabinets as the hearing continues.

2 We're running an experiment with this
3 hearing, like all the other hearings, the gentleman
4 who is speaking into the item to my left over there is
5 a court reporter, certified court reporter, Allen
6 McClung, and he will be making a transcript of this
7 hearing which we believe will be posted on our website
8 in about a month. And so you can look at our website
9 it's: www.psc.state.ky.us..

10 The gentleman with the video camera, or
11 looks like a video camera, is Adam Rabinowich, and
12 Adam is taking a digital shooting of this, and there
13 will be on our website about one week from today the
14 video hearing so you can watch this hearing if you
15 want.

16 This is our second hearing. It's in London.
17 This is October 5th. Our first hearing was in
18 Lexington on Monday. We plan to go to Covington,
19 Kentucky next Tuesday, and Owensboro and Louisville
20 the following week. Those five locations make up our
21 group of five, the five major gas companies in the
22 Commonwealth of Kentucky. There, of course, are many
23 other gas companies, but the five major ones are what
24 we're concerned with.

25 We're going to go through the agenda, and

1 hopefully you have the agenda here. And this is going
2 to be starting out a formal hearing which we will
3 swear in the Delta people and they will be -- will
4 have questions and answers by the interveners, if
5 there are any. We see the Attorney General's Office,
6 Ann Cheuvront is here and so she'll ask questions, or
7 may ask questions. I don't see any of the other
8 interveners here. But it will be a formal hearing.

9 At the end of the formal hearing if you want
10 me to ask questions of these people then, if you
11 would, you could complete a little piece of paper out
12 in the front and ask the question and we'll then ask
13 that question to the utilities or determine whether
14 it's proper at that point to ask the question.

15 After that though if you have any questions
16 that you want to say then we're going to let you come
17 up to the microphone and make any comments you have
18 before we turn it over to the other public comments,
19 and then you'll hear from the Cabinets for Families
20 and Children, you'll hear from Natural Resources,
21 you'll, hear from the Kentucky Association of
22 Community Action, and you'll hear from the Public
23 Service Commission.

24 So that's what we're going to go through.
25 And that's going to be our order. So first thing

1 we're going to have is an opening statement. And I
2 believe Mr. Jennings is going to make that opening
3 statement, who is president of Delta Gas. And I think
4 we probably have to move back there to see this; is
5 that correct?

6 MR. JENNINGS: Yes.

7 MR. HUELSMANN: So if you give us a second
8 to relocate.

9 MR. JENNINGS: As the chairman said, my name
10 is Glenn Jennings. I'm president of Delta Natural
11 Gas. People that are moving around amongst you are
12 passing out a copy of the Powerpoint presentation I
13 have up here so you'll have that to keep, mark on, or
14 otherwise do with as you wish. I'm sorry if I don't
15 have -- I brought about 30, so if we're short some
16 maybe we could make some more later. If you'd like
17 one you could leave your card or leave your name,
18 we'll send you one. If there are Delta people here
19 don't take one. I can get you one later.

20 Just as a -- my purpose is to give a brief
21 overview of Delta and the proceeding. And this is, as
22 the chairman said, the second of public hearings that
23 are being held around the state to discuss gas supply
24 and prices.

25 We at Delta filed a data response on

1 September 22nd that was sent to us from the PSC
2 relating to supply and prices. And the overview
3 tonight is by myself. I have three other people here
4 representing the company that will be available for
5 questions as well as myself if there are questions
6 afterward.

7 We intend to respond to any questions or
8 concerns. And I'll say this, we are pleased to be
9 here and have the opportunity to talk about this and
10 I'm glad to see such a good turn out. I went to the
11 meeting in Lexington and there were a lot of people
12 there, but I think there are probably more consumers
13 here than there were there. There were a lot of
14 people there. But nonetheless, it's good to talk
15 about this early on before winter comes and before
16 people get their gas bills. And I think it's good to
17 have the knowledge of it, to have press about it. I
18 know I live in Berea and I've had a lot of discussion
19 with people about gas prices everywhere I go, church,
20 school, hospital, et cetera, and that's good because
21 it helps people to understand a bit about what's going
22 on in the country with natural gas.

23 A little bit about Delta; this is a brief
24 commercial just to explain a bit about us. We operate
25 in 23 central and southeastern Kentucky counties, have

1 about 40,000 customers, 2,200 miles of pipeline, 156
2 employees. We have a very active and growing service
3 area and London is one of those that's growing quite
4 rapidly. And we expand our system in London to be
5 able to meet that growth as we do in other parts of
6 the system.

7 This is a map of our service area, just to
8 give you a feel for the company and where it serves.
9 The dotted lines are interstate transmission lines
10 that serve various parts of our service area. The
11 black dark -- the dark black lines are Delta Gas
12 transmission lines that connect a lot of the system
13 from Berea and Richmond south. But this just will
14 give you a bit of a view of Delta and the areas we
15 serve and some of our offices and communities and our
16 storage fields. We have two that are the black oblong
17 spot on there down around Middlesboro and then just to
18 the east of Barbourville.

19 The reason we're here is because gas prices
20 have increased a lot. And when I say gas I mean
21 natural gas. Gasoline prices have also increased a
22 lot, but I'm talking about natural gas tonight. The
23 result is over a 30 percent increase in Delta's rates
24 since January strictly due to increased cost of
25 natural gas.

1 Our rates have two components. They have a
2 cost of service component, and a cost of gas
3 component. And tonight we're talking about the cost
4 of gas. Cost of service is something that can only be
5 adjusted by our company in a rate case before the
6 Public Service Commission. We do not have one before
7 them now.

8 This cost of gas component is over 50
9 percent of our total. Right now it's actually closer
10 to 60 percent, between 50 and 60 percent. And we pass
11 through gas costs dollar for dollar. If gas prices go
12 up we increase. If gas prices decline we reduce. So
13 we are high now, but if prices begin to drop rapidly
14 then those prices will be reflected in rates.

15 This is something I put together. This is a
16 19-year history of Delta's Gas component of our rate.
17 We call it the GCR, the gas cost recovery piece of our
18 rate. And you can see that -- let's see if this will
19 work -- right now we are at August 1 was \$5.54 for the
20 gas piece of our rate. And you can see how it has
21 varied. It was \$3.94 a year ago August, but it was
22 4.37, 4.50. In '92 it was down to 2.35. So it's up
23 and down all over the map -- 2.84. But in 1984 it was
24 \$4.30, so we have a market for natural gas that does
25 go up and down.

1 This I thought was helpful but not as useful
2 to look at as this, which is a graph of -- which
3 shows, starting in the year 2000 on this side where we
4 are now and just graphing those by year. And you can
5 see the low points and the highs. This red line I
6 added on here is the 19-year average, which just shows
7 the average of where prices have been. So you can see
8 that right now we are well about the historical
9 average for the last 19-year period.

10 Now why is this? Well, it's because of a
11 few things, but first natural gas has been unregulated
12 at the wellhead. That means that there is no longer a
13 regulated setting of natural gas prices, but that they
14 are set by demand and supply in the marketplace. And
15 that has been the case since 1980's. And that
16 happened with two things. That happened with federal
17 regulation, the Natural Gas Policy Act, and it also
18 happened with some FERC actions that loosened up the
19 transportation on pipeline systems to allow people to
20 buy other than from the interstate pipeline systems.

21 Prices now determined by demand and supply.
22 And this year since January or since the start of this
23 year natural gas prices have gone up a lot at the
24 wellhead. And as a result of that what we have to pay
25 for natural gas has gone up and that's reflected in

1 our rates.

2 And people ask all the time, well, why is
3 this. Well, nobody knows all the answers and I don't
4 pretend to have all the answers, but I know a few of
5 them based on what I read, the people I talk to, the
6 suppliers we talk to, the publications we read, the
7 trade associations that we're a member of. And there
8 are a few things I have identified. One is just the
9 fact that national consumption is going up. There are
10 more customers. Most gas companies are growing at a
11 rate of two percent, some as much as five or six
12 percent in the country, some even more than that. So
13 they're adding new customers all the time.

14 Second, and this is becoming more and more
15 of a factor, is electric generation demand. More of
16 the electric peaking plants in the company are natural
17 gas fired. So -- and it has been very warm for the
18 last few years. This past summer was very warm and
19 dry. And so natural gas demand for electric
20 generation has been high, especially in the peak times
21 in the summer time.

22 Weather has been a factor. When it is cold,
23 generally, prices go up because demand is greater.
24 But when it's warm also in the summer prices go up
25 because demand is now greater. So we have affects in

1 both the summer and the winter.

2 In addition, any time now that a hurricane
3 is forecast that's going through the gulf or the
4 producing areas prices tend to react by going up
5 because there's a concern that there's going to be
6 reduced supply.

7 Another item is lower storage levels. This
8 summer as prices were high people were not storing as
9 much gas, waiting thinking they would decline. And
10 that has tended to cause people to price gas higher
11 because they know that the people who need to store
12 are going to have to eventually store. So if levels
13 are low then they tend to -- tend to price the gas
14 higher.

15 There's also a lag in added production or
16 deliverability. And the natural thing in a market
17 with demand and supply is if there's not enough supply
18 then people will drill more. And that's exactly
19 what's happening. The rig count, the number of active
20 drilling rigs operating is much higher, but it's going
21 to take 6 to 12 months before that production comes on
22 line and begins to be moved into the pipeline system.
23 So you have a lag on that.

24 And then what I call the big unknown is what
25 I call market issues. And that is the three things

1 that I label anticipation, traders, and speculation.
2 And that's people who are trading natural gas and
3 natural gas futures. And everything in the world can
4 fuel that activity. You never know. It's wars and
5 rumors of wars. It's anything and everything. And to
6 say any one thing drives it, I don't know. But I do
7 know that there is a lot of activity in trading of
8 natural gas and there are a lot of people who do that
9 now. And I think that has an impact on it, and to say
10 any one of these is the reason, I cannot. But I can
11 say all of these are some of the reasons.

12 I thought it would be helpful then to look
13 at what some people do call the market, if you want to
14 use that term for it, and that's the NYMEX futures at
15 Henry Hub. Henry Hub is a location where a lot of
16 natural gas comes through. And that's a mark that
17 people use to gauge a lot of contract pricing. And
18 this is the year 2000 and 2001, this is recently; this
19 is a few days ago.

20 We just looked at the NYMEX Henry Hub
21 Futures pricing for November through March gas, went
22 back then and looked at that last year for a somewhat
23 similar period. Not the exact day, but it doesn't
24 really matter as long as it's just looking at those
25 months. And then also the year before that, and the

1 year before that. You can see where we are here with
2 November futures pricing in October versus where we
3 were a year ago, two years ago, three years ago. And
4 that tells you what's happening to the natural gas
5 market in the United States.

6 I also graphed that just so you can see it a
7 little more clearly, but you -- it's fairly easy to
8 see here the difference between two years ago and now
9 or even a year ago and now of what the anticipation is
10 for gas pricing over the next four or five months of
11 the winter. And that's why rates are a lot higher,
12 about two dollars, three dollars, five -- so, that's
13 pretty much where we are right now.

14 Delta is committed to supply our customer's
15 needs. We have an obligation to serve every customer
16 that's hooked up to our system and to take on new
17 customers. And firm gas is necessary for that. Firm
18 gas means that it will be flowing on the coldest day.
19 That that's the time it's needed the most. And most
20 of our customers, residential, commercial, many
21 industrials, need firm gas as opposed to interruptible
22 gas that can be curtailed or turned off when the
23 weather gets colder.

24 We have supply contracts, pipeline
25 contracts, and storage contracts with interstate

1 pipelines to bring the gas to our system and to the
2 market. And we feel like supply has to be adequate
3 and available to meet the growing needs in any service
4 area. So we also are always providing for that to
5 make sure that as more customers come on that we can
6 be there to hook them up and to meet their gas needs.

7 A little bit about Delta on our supply.
8 We're supplied by four interstate pipelines. We
9 purchase gas supplies from a broad range of people,
10 marketers, producers; some of those are national
11 marketers. We buy gas from local Kentucky producers.
12 You saw our operation area and we operate in this
13 whole section of southeastern Kentucky and so we have
14 a lot of people we do business with there. A lot of
15 the contracts in pricing is tied to either the NYMEX
16 Futures or an index similar to that. There are
17 several, but they all price along about the same.

18 We hold storage capacity on two interstate
19 pipelines, Columbia and Tennessee. And we have a
20 significant storage field of our own in Bell County
21 south of here. And we have planned this year, we've
22 been filling that storage field all summer and --
23 spring, summer, and fall, and we have that planned to
24 supply about half of our total system needs this
25 winter. Our total system needs are about four billion

1 cubic feet of gas, and we have about two billion cubic
2 feet in that field, or will have by the time November
3 comes.

4 We must be able to meet the peak day and the
5 seasonal needs. And that's critical to understand.
6 The peak day is the cold day and the seasonal need is
7 that wintertime low that's much higher than the rest
8 of the year. And that's our mission as we see it to
9 be able to do that effectively every day.

10 Speaking of prices, I think prices of gas
11 should continue to fluctuate. You can see the in the
12 19-year history I did they have. You can see the
13 Futures pricing they have. And I see nothing that
14 tells me they're not going to in the future because it
15 is an unregulated market, it is a demand and supply
16 market.

17 Hopefully prices will decline. Delta Gas
18 takes no joy from high gas prices. It's just the
19 opposite. We do much better when gas prices are very
20 low because then our rates are much lower, people are
21 happier with us. If prices are high we have to buy
22 the high price gas and pay for it on the front end
23 before we bill our customers for it and then try to
24 collect for it. So, I mean, it's not the greatest joy
25 we ever have to see gas prices go up. It's just the

1 opposite. So we are hoping they do decline.

2 We will continue to purchase the least
3 expensive reliable gas that we can. That is gas that
4 will be there and will be delivered to us when they
5 said it would. We will continue to use our storage
6 field to help manage our supplies and our prices.
7 We'll use the field that we have in Bell County and
8 we'll use the storage capacity that we have on
9 interstate pipelines. And we will manage that
10 interstate pipeline capacity to be able to take the
11 gas and to meet the needs of our customers with it.

12 I have just a few things to mention about
13 ways that we try to help or things that we are
14 involved with that help with higher bills. We have
15 our budget billing plan that can help with
16 fluctuations. And that basically just takes a bill
17 for -- an expected annual bill and divides it by 12
18 and averages it over a month so that you have no huge
19 fluctuations. You're paying on a 1/12 basis.

20 We do consider partial payment terms for any
21 customer that has a hardship or a problem. And all of
22 our people are trained and skilled in working with
23 customers to work those things out.

24 We participate in the Home Energy Assistance
25 Program and the Winter Care Program. We can talk more

1 about those later if you have questions or would like
2 to. We have people here who are familiar with those.

3 We are -- we do follow the disconnect
4 restrictions that are in the regulations from November
5 to March that provides a longer time for people to be
6 disconnected than normal if they don't pay if they
7 either present a certificate of need or a medical
8 need.

9 And we have people trained and understand
10 following the winter hardship reconnections. That's
11 where someone has a hardship, cannot pay on time, has
12 to have it spread out over time. And as long they
13 will agree to terms and agree to eventually do that,
14 then we work with them to make sure that they can.

15 We also think that a universal service fund
16 could help. And this is a concept that's been talked
17 about. There was legislation proposed during the last
18 session but it never got anywhere. But that would be
19 a concept where perhaps an amount such as on the phone
20 bill is collected from all customers and then paid to
21 an agency and utilized to pay the accounts of those
22 people who cannot or who have hardships and are unable
23 to pay.

24 The bill, I was looking at it I think this
25 morning, it's about, you know, some -- it's a small

1 amount, like a dollar per meter per month. It's not a
2 huge assessment. But if something like that would be
3 -- it would accumulate to a lot of money if all gas
4 companies and all electric companies in Kentucky did
5 it it would be a pretty good-sized fund.

6 I'm concerned about people being able to pay
7 their bills. I was at the Columbia meeting in
8 Lexington on Monday night and I heard the various
9 agencies speak and I realized the hardship it's going
10 to be on people with prices being higher for natural
11 gas and for gasoline or for oil or propane or whatever
12 it is. And so I really would like to see, you know,
13 some way for people to be able to be helped if they
14 can.

15 As I said, we're concerned about higher
16 prices. We will do all that we can to control or
17 reduce the prices as it related to Delta, our
18 operation, and the natural gas that we buy. We will
19 be compassionate. Our people will be and we'll work
20 with anyone and everyone to try to help them.

21 We appreciate and value all of our
22 customers. If we didn't have customers then I
23 wouldn't have a job and Delta Gas wouldn't exist and
24 we understand that. It's very important to us.

25 We do plan for adequate supply for our

1 customer's needs. We do it for now and we do it for
2 the future. We plan to make sure that we can be there
3 to handle the growth in our customer base and the
4 growth, the economic development that comes in the
5 areas, the new jobs, the businesses, the industry. We
6 feel like the strategic storage field that we have in
7 Bell County does help us provide better reliability,
8 particularly in this part of the state. We think
9 that's something that is very valuable and it's only
10 been on line now for a couple of years. But its
11 capacity is increasing every year with it.

12 And that's sort of an overview of Delta, our
13 supply, our storage. I thank you for your interest in
14 being here tonight. And I'll respond later to any
15 questions and so will other Delta people. Thank you.

16 MR. HUELSMANN: Thank you, Mr. Jennings.
17 Are you all going to make a little statement or just
18 answer questions?

19 MR. JENNINGS: Just answer questions.

20 MR. HUELSMANN: Let me put all of you under
21 oath. Mr. Jennings, why don't you stand up.

22 (WITNESSES SWORN)

23 MR. HUELSMANN: Before you all ask
24 questions, Mr. Jennings, I'll ask the first question
25 since I expected them -- no, just stay right where

1 you're at, you won't need it, I don't think -- is that
2 we had kind of expected a presentation. You made the
3 presentation but I would just like to ask you one
4 question. Is everything that you said prior to this
5 true and accurate to the best of your knowledge?

6 MR. JENNINGS: Yes, sir.

7 MR. HUELSMANN: Okay. That's all I have.
8 With that we're going to turn it over first to the
9 attorney -- Mr. Jennings?

10 MR. JENNINGS: Would you like for them to
11 introduce themselves perhaps or tell the areas that
12 they're responsible for? Would that be --

13 MR. HUELSMANN: That would be a great idea.

14 MR. JENNINGS: I was going to do that
15 earlier and I forgot. I apologize.

16 MR. HUELSMANN: Mr. Heath?

17 MR. JENNINGS: Mr. Hazelrigg.

18 MR. HUELSMANN: Hazelrigg.

19 MR. BILLINGS: Mr. Heath's not here. I'm
20 Steve Billings.

21 MR. HUELSMANN: Okay.

22 MR. BILLINGS: I'm probably the least
23 popular fellow here. I'm the manager of gas supply
24 for Delta.

25 MS. KING: I'm Connie King, and I'm director

1 or rates and treasury at Delta.

2 MR. HAZELRIGG: I'm Robert Hazelrigg, vice
3 president public and consumers affairs.

4 MR. HUELSMANN: And what we're going to do
5 now is our attorneys -- our attorney there is going to
6 introduce herself as well as our person from financial
7 analysis and they will ask questions. And we would
8 appreciate it if you'd tell us who you are when you
9 answer, okay?

10 MR. JENNINGS: Okay.

11 MR. HUELSMANN: So with that in mind, Ms.
12 Mitchell, do you want to introduce yourself?

13 MS. MITHCELL: I'm Anita Mitchell from the
14 Public Service Commission.

15 MR. SHAW: And Jeff Shaw with the Division
16 of Financial Analysis at the Public Service
17 Commission.

18 MR. HUESLMANN: You all are going to have to
19 speak up so they can hear you back in the back. Go
20 ahead.

21 MS. MITCHELL: Good evening. In responses
22 to the Commission's Date Request that Mr. Jennings
23 mentioned on September 12, 2000, Delta indicated that
24 it had sufficient gas supplies to meet the demands of
25 its customers this winter. Is there a worst case

1 scenario under which Delta might not be able to meet
2 it's customer's demand for the natural gas, and would
3 such a scenario be different this winter than any
4 other winter?

5 MR. BILLINGS: Steve Billings answering. We
6 believe we've contracted for sufficient gas supplies
7 as well as sufficient pipeline capacity and storage
8 capacity on the interstate pipelines, plus our Canada
9 Mountain storage field to meet the worse case scenario
10 for our customers.

11 MS. MITCHELL: Have any of the marketers of
12 supplies with who Delta currently contracts for
13 natural gas supplies ever failed to deliver to your
14 system?

15 MR. BILLINGS: Yes, we occasionally have
16 local producers who will fail due to a compressor
17 shutting down or wells freezing off. But we've never
18 had a failure on the interstate pipelines, nor with
19 our Canada Mountain storage field.

20 MS. MITCHELL: Well, do you have any concern
21 with going ahead and contracting with them?

22 MR. BILLINGS: No, we continue to contract
23 with them because in most cases the price of the gas
24 is less costly.

25 MR. HUELSMANN: They can't hear you in the

1 back. If you would speak up, everybody, so they can
2 hear you. Thank you for bringing that to my
3 attention.

4 MR. BILLINGS: We continue to purchase gas
5 from local producers because in most cases their gas
6 is less costly because of less dependability than the
7 interstate supplies. However, we discount the amount
8 of that gas that would be available when we need it on
9 a peak day. In other words, we will take a percentage
10 of say 50 percent and assume it will not be available
11 in developing our supply portfolio.

12 MS. MITCHELL: Is Delta aware of any
13 bottlenecks in the delivery system from the wellhead
14 to the city gate that might prevent the delivery of
15 adequate gas supplies?

16 MR. BILLINGS: No.

17 MS. MITCHELL: Could you tell us if Delta
18 has reviewed the curtailment procedures for the coming
19 heating season and, if you have, do you believe those
20 procedures are adequate?

21 MR. HAZELRIGG: Bob Hazelrigg. As Mr.
22 Jennings and Mr. Billings have both stated, and let me
23 reiterate, that we think we have a price problem, not
24 a supply problem. Every Fall Delta does remind its
25 interruptible customers that we are approaching winter

1 time and ask them to make sure their alternate fuel
2 capabilities are adequate and in operational shape.

3 Further, let me state that things have
4 changed in the natural gas industry. And we only have
5 very few interruptible customers that are, in fact,
6 purchasing natural gas from Delta. I think we have
7 four or five wintertime interruptible customers that
8 are actually purchasing gas from Delta. The rest of
9 the interruptible customers are purchasing gas from
10 marketers, from other supplies. So the communication
11 that exists regarding curtailment possibilities is
12 more appropriately between the supplier and the
13 customer rather than between the utility and the
14 customer.

15 MS. MITCHELL: For the benefit of the
16 members of the public that are here tonight, can you
17 identify the different components of Delta's wholesale
18 gas cost and explain the extent to which these
19 components are or are not subject to regulation?

20 MR. BILLINGS: Steve Billings. There are
21 three or four components to Delta's natural gas cost.
22 The first one, obviously, is the cost of the
23 commodity, the natural gas itself. The second is the
24 cost of the transportation on the interstate pipelines
25 to get the gas from its source to Delta city gate.

1 There's also a cost of retainage on those interstate
2 pipelines in that they will retain for compressor fuel
3 or losses somewhere in the range from three to five
4 percent.

5 Additionally, we have reservation fees. We
6 not only have to pay the commodity charge to get the
7 gas to our city gate, we have to pay reservation fees
8 to reserve the space in the pipeline as well as the
9 space in the interstate pipeline's storage fields to
10 store our gas. So there are basically four components
11 that make up our cost of the gas that we pass on
12 through to the customer.

13 Now the portions of those that are regulated
14 would be all of the interstate charges such as the
15 demand and commodity fees, the retainage, and the
16 storage fees.

17 MS. MITCHELL: With regard to the natural
18 gas the Delta currently has under contract, how do you
19 determine that the contract is prudent and reasonable?
20 In other words, do you have benchmarks or industry
21 standards that you rely on?

22 MR. BILLINGS: Steve Billings answering. We
23 do not have a benchmark per se against which we
24 compare our prices that we pay for the gas. But the
25 majority of the gas that is currently under contract

1 with marketers is tied to a publication, which is
2 widely used in the industry known as Inside FERK. And
3 we base our pricing on the price as published in that
4 publication at the first of each month. So we believe
5 it fairly represents prices that are prevailing in the
6 industry and use that as a guideline that we are
7 paying a fair and competitive price.

8 MS. MITCHELL: In item four of the responses
9 that we spoke of earlier, the Commission's Data
10 Request, Delta compares customer's average bills in
11 January of 2000 with those bills would have been based
12 -- wait a minute, excuse me.

13 Delta compared the customer's average bills
14 in January of 2000 with what those bills would have
15 been based on the rates in effect at September 1,
16 2000. Based on January's average monthly usage of 14
17 MCF's this comparison shows that a residential
18 customer's bills would increase from \$101 to \$136. Is
19 it correct that the only charges -- changes in rates
20 from January 2000 to September 2000 result from
21 increases in Delta's wholesale natural gas prices?

22 MS. KING: Connie King. Yes.

23 MS. MITCHELL: Thank you. In item five to
24 the responses to the Commission's Data Request, it
25 shows that Delta's natural gas prices -- purchases are

1 all long-term except for the purchases from resources,
2 which are a combination of long-term and short-term
3 purchases. Can you identify and describe the factors
4 affecting these purchases that appear to favor long-
5 term contracts over short-term contracts?

6 MR. BILLINGS: Steve Billings. The term of
7 the contract or the length of the contract is really
8 of not too much importance, mainly because they each
9 have variable pricing provisions tied to an
10 independent index. There is a desire on our behalf
11 not to have all of our contracts come due
12 simultaneously where we're having to renegotiate
13 those. But there's really not too much benefit from a
14 pricing standpoint to a long-term contract versus a
15 short-term because it's a pricing issue that we're
16 dealing with not a length of contract type issue.

17 MS. MITCHELL: Well, sir, can you tell us if
18 you -- do you get a better deal if you do one or the
19 other, if you do a long-term versus short term or --

20 MR. BILLINGS: Steve Billings. We -- with
21 most of the local producers with whom we deal many of
22 those people do not desire to enter a contract for
23 more than one year. And generally those are fixed
24 price agreements. And they do not want to tie their
25 gas up more than a year at a time.

1 On our interstate contracts we usually
2 contract for three years or longer. And, as I said,
3 those are tied to Inside FERC pricing. And I think
4 that with as many marketers that there are available
5 there's not really a lot of benefit to be gained.
6 Used to when we had 20-year contracts we felt very
7 secure that our company had its supply lined up, etc.,
8 back prior to deregulation and unbundling.

9 But now we have quite a few marketers that
10 are interested in our business. Last Spring we had
11 our contract up for renewal on the Tennessee Gas
12 pipeline system and we had, I believe, we sent out
13 RFP's to about seven or eight people or companies,
14 which responded. We took the two best quotes and
15 renegotiated -- or negotiated with those people and
16 got them down and got what we believe to be a
17 favorable agreement for our customers.

18 So that -- the term of that agreement is
19 three years. We'll do that process again after three
20 years and solicit proposals for marketers at that
21 time.

22 MS. MITCHELL: Can you describe, generally,
23 what Delta perceives as the advantages and
24 disadvantages of the short-term and long-term
25 contract?

1 MR. BILLINGS: I guess I just tried to do
2 that.

3 MS. MITCHELL: Well, I mean -- well, go
4 ahead.

5 MR. BILLINGS: Could you expand on that
6 question?

7 MS. MTICHELL: Well, I guess, can you just
8 explain to us, is there any advantage -- since most of
9 yours appear to be long-term is there an advantage to
10 having them more long-term?

11 MR. BILLINGS: Steve Billings again.
12 There's an advantage in that knowing you have a
13 contract with a reliable supplier and that you have
14 other provisions in place that will ensure the
15 reliability of that gas getting to your city gate when
16 it's called for or when it's needed by your customers.

17 With regard to our local producer contracts,
18 they do provide some degree of price stability because
19 we usually, and I think in most cases, not all cases,
20 will enter a fixed price contract with those people so
21 it's not subject to the fluctuations that Glenn showed
22 on the screen a while ago that the NYMEX Futures price
23 as it fluctuates.

24 So really the term is not a big issue to me.
25 Price is and reliability is and the ability to deal

1 with a company that has financial stability, those are
2 more important issues than the length of the contract.

3 MS. MITCHELL: Thank you. In item five of
4 the response to the Commission's Data Request, Delta
5 identified Resources and ENPRO as two subsidiaries
6 from which Delta purchases natural gas. In your
7 opinion, are the prices that Delta pays Resources and
8 ENPRO subject to the affiliate transaction pricing
9 rules contained in House Bill 897 that amended KRS
10 278.010 through KRS 278.450, and if not can you
11 explain?

12 MR. HAZELRIGG: Bob Hazelrigg. We followed
13 House Bill 897 as it progressed through the
14 legislature and we do not believe that the intent of
15 House Bill 897 was for the provisions to be applicable
16 to wholesale transactions between the affiliates and
17 the utility.

18 MS. MITCHELL: Would you classify Resources
19 as a marketer, a producer, or something else?

20 MR. HAZELRIGG: Bob Hazelrigg: Marketer.

21 MS. MITCHELL: In the response there was a
22 table; and the asterisks below the table in that
23 response indicates that Resources prices is an average
24 price that is calculated at the end of the month. How
25 is that average price determined?

1 MR. BILLINGS: Steve Billings. We wait till
2 the information is in at the end of the month from the
3 various suppliers; we total up the volumes and total
4 prices paid and arrive at a weighted average cost for
5 that gas. And it's flowed through to Delta Natural
6 with no mark up.

7 MS. MITCHELL: Is that all suppliers
8 including the local producers?

9 MR. BILLINGS: Yes. Obviously, we can't
10 know what that weighted average is until we get all
11 the numbers in -- all the various volumes, which are
12 at different prices. And then we determine what that
13 weighted average is and that's what that cost is
14 passed through.

15 MS. MITCHELL: ENPRO sales to Delta at a
16 fixed price that is the lowest price that Delta pays
17 for natural gas. Is ENPRO a marketer, a producer, or
18 something else?

19 MR. BILLINGS: Steve Billings. ENPRO is a
20 producer.

21 MS. MITCHELL: Delta purchases relatively
22 small volumes from ENPRO. What limitations, if any,
23 are there on the volumes that may be purchased from
24 ENPRO?

25 MR. BILLINGS: Steve Billings. ENPRO

1 operates some old wells in Knox County and Whitley
2 County and Bell County, and we produce those wells to
3 the extent they'll give up the gas. If they could
4 give up more we'd take it. But we run them 50 weeks a
5 year at whatever they will produce. We shut them then
6 for two weeks annually to take shut in pressures and
7 update our reserve studies.

8 MS. MITCHELL: Resources is identified as
9 Delta's largest volume supplier. What limitations, if
10 any, are there on the volumes that may be purchased
11 from Resources?

12 MR. BILLINGS: Steve Billings. In some of
13 our communities off the Tennessee Gas Pipeline System
14 and Columbia Gas Transmission System, as I said, we go
15 out for requests for proposals to supply those systems
16 and the marketers insist upon being the exclusive
17 supplier to those systems. In other words, they don't
18 want to quote us a price and we buy it when the price
19 is good but undercut them when the price -- we find a
20 marketer who will sell it to us cheaper.

21 So to that extent Resources would be limited
22 in selling gas and competing against one of those
23 marketers in those systems where the marketer has
24 exclusive supply.

25 MS. MITCHELL: What factors influence the

1 mix of volumes Delta purchases from its subsidiary
2 suppliers and from its non-affiliated suppliers?

3 MR. BILLINGS: Steve Billings again. The
4 availability of local gas would have an impact on
5 that. We have seen local gas volumes decline over the
6 last decade. It got very serious in the mid '90's
7 requiring us to look at alternatives to meet our
8 customer's needs and that's when the Canada Mountain
9 Storage Field was developed. So I think the
10 availability of local gas and the exclusivity of
11 supply in the interstate supplied areas would be the
12 things that would limit or influence the mix of
13 volumes.

14 MS. MITCHELL: Do either ENPRO or Resources
15 sell gas to LDC's other than Delta?

16 MR. BILLINGS: Steve Billings. No.

17 MS. MITCHELL: How does Delta determine the
18 volumes it will purchase from each supplier?

19 MR. BILLINGS: Steve Billings. Again,
20 Delta's systems, as Glenn showed on the map earlier,
21 are segregated to the extent that the marketer
22 supplying gas on our Tennessee Gas supplied systems
23 does not put gas into our Columbia supplied systems.
24 So to the extent, the customers in the Tennessee Gas
25 supplied systems are calling for gas, that marketer

1 would be providing those volumes. So the customers
2 determine the amount of gas that we have to purchase.
3 And depending upon the area and the suppliers
4 available to that area determines the volumes we
5 purchase from each supplier.

6 MS. MITCHELL: Will you provide an overview
7 of Delta's disconnection policies and the type of
8 modified payment, partial payment plans available to
9 customers that have difficulty paying their bills?

10 MS. KING: Connie King. A customer received
11 a bill. They have ten days to pay that bill. If
12 payment is not received seven days later they would
13 receive a final notice, that gives the customer an
14 additional ten days to pay their bill. If payment is
15 still not received then it would be subject to be
16 disconnected at that time. We do not disconnect in
17 the winter if the temperature is below 32 degrees.

18 On our partial payment plans, we are willing
19 to work with all of our customers to set up partial
20 payment plans. All of our customer service
21 representatives are trained to negotiate with the
22 customer to set up the partial payment plans. We work
23 with customers who present certificate of need to give
24 them an additional 30 days to pay their bill -- well,
25 an additional 30 days to make arrangements, and then

1 they have a later time period to pay that bill. We
2 also work with customers who present medical
3 certificates that say that if we disconnected their
4 service that it could be detrimental to their health.

5 MS. MTICHELL: Has Delta considered any
6 tentative plans or contingency plans to liberalize
7 these disconnection policies or payment plans if the
8 increase in gas prices significantly increases the
9 number of customers experiencing payment problems?

10 MS. KING: Connie King. At this time we
11 have not. We feel that Delta's case-by-case approach
12 to working with the customer to negotiate partial
13 payment plans is a liberalization approach. Like I
14 said, we are willing to work with all customers to
15 help prevent termination of service, and we will
16 certainly continue to do that.

17 MS. MITCHELL: Thank you. In response to
18 item seven of the Commission's Data Request identified
19 various assistant programs for low-income customers,
20 while the response to item nine discusses a universal
21 service fund as a possible means of providing
22 assistance to low-income customers. Based on the
23 response to item nine, does Delta envision that a
24 universal service fund would complement the programs
25 currently available or replace those programs?

1 MR. JENNINGS: I apologize. Would you
2 repeat the question? I was looking at something else
3 and was not paying attention. So that's my mistake.
4 Sorry.

5 MS. MITCHELL: In response to item seven of
6 the data request there were some -- Delta identified
7 various assistance programs.

8 MR. JENNINGS: Yes.

9 MS. MITCHELL: And then item nine talked
10 about a universal service fund. Based on the response
11 to item nine, does Delta envision that a universal
12 service fund would complement the programs currently
13 available or replace those programs?

14 MR. JENNINGS: Complement. We don't view it
15 as replacing. We view it as something that would be
16 in addition. Because if it's not it's not going to
17 help solve the problem this winter. Because the
18 problem that we see is one of people not being able to
19 pay the higher bills with the assistance that's
20 already available. So it has to be, from our look at
21 it, something in addition to where we are so that it
22 will be an added help.

23 MS. MITCHELL: Can we interpret the response
24 that was given to item nine to mean that Delta would
25 support a universal service fund for this coming

1 heating season that would be put into place without
2 enabling legislation?

3 MR. JENNINGS: Yes, you could interpret that
4 that way. I very strongly would like to see
5 something.

6 MS. MITCHELL: Delta offers a budget payment
7 plan for its residential customers. At what period
8 during the year are customers enable to enroll in this
9 plan?

10 MS. KING: Connie King. Our budget plan
11 begins in August of each year, but a customer can
12 enroll at any time.

13 MS. MITCHELL: Can you tell us what
14 percentage of Delta's customers have enrolled in the
15 budget plan?

16 MS. KING: Connie King. About 19 percent.

17 MS. MITCHELL: Has Delta stepped up its
18 efforts to promote its budget plan this year in light
19 of the increase in its rates due to the increases in
20 wholesale gas costs?

21 MS. KING: Connie King. Yes. We did
22 additional inserts regarding the higher costs and we
23 also encouraged our customers to join our budget
24 payment plan.

25 MS. MITCHELL: In Delta's most recently

1 approved gas cost adjustment went into effect August 1
2 of this year, did the budget amounts established for
3 Delta's customers this past August reflect the
4 increase in rates based on that GSA?

5 MS. KING: Yes.

6 MR. HOLMES: What was that percentage
7 increase again?

8 MS. KING: The percentage increase?

9 MR. HOLMES: Yes.

10 MS. KING: Of budget customers? About 19
11 percent of residential customers.

12 MS. MITCHELL: The response to item ten of
13 the Commission's Data Request identified hedging
14 agreements as one possible strategy to mitigate the
15 impacts of higher wholesale gas prices. What is
16 Delta's position on employing hedging strategies as
17 part of its gas supply portfolio?

18 MR. BILLINGS: Steve Billings. We believe
19 that the use of the Canada Mountain Storage Field is
20 probably the truest or purest form of a hedge to the
21 extent that we've got a significant portion of our
22 supply at a known price available for withdraw this
23 winter means that we will not be impacted on those
24 particular volumes by price increases.

25 We've not gotten into some of the caps or

1 collars or options or those type of things. We have
2 hedged on pricing on some of our interstate supply in
3 the past over about three or four winters. And
4 hedging, as you know, is a two-edged sword. And if
5 somebody wins, somebody loses. We pretty much broke
6 even on it. We saved some money in some months and
7 could have done better in other months.

8 So that is something I think we will
9 continue to look at and see if there are things that
10 we can do to bring price stability or more stability
11 to our gas costs in the future.

12 MS. MITCHELL: Thank you. Referring to
13 response to item 11 of the Commission's Data Request,
14 is it correct to say that Delta believes that
15 differing gas costs recovery until a point in the
16 future could be risky due to uncertain gas -- future
17 gas prices?

18 MR. JENNINGS: Glenn Jennings. I'll respond
19 to that. I think the short answer is, yes, it would
20 be risky. We thought about that. The problem with
21 that is if prices go up and you differ then you just
22 exacerbated the problem and you still have the problem
23 of recovering the higher prices. It's just a matter
24 of -- it makes it worse.

25 So if prices moved in the right direction,

1 which in my opinion is downward, then it would, you
2 know, it might be okay. But I don't know anyone that
3 can predict what they're going to do. If they could
4 they're probably trading futures and making a lot of
5 money.

6 MS. MITCHELL: From a regulatory perspective
7 does Delta advocate a hands-off approach to the
8 increase in natural gas prices and to letting the
9 natural gas market dictate prices?

10 MR. JENNINGS: I think -- I don't know if
11 hands-off is the right word. I think that all
12 commissions need to do whatever they can to ensure and
13 be comfortable that the least expensive reliable gas
14 is being provided. I think that's part of what the
15 commission is doing here.

16 But, to say that your hands are either on or
17 off, that's either regulation or not. And the gas
18 production was regulated for years in this country and
19 by the early '80's we reached a point where we had an
20 extreme shortage of supply. And I don't think anyone
21 wants to move back to those days of curtailment and
22 people unable to keep houses warm.

23 So that's a delicate balance there to make
24 sure that you don't stifle the market to where people
25 won't drill.

1 MS. MITCHELL: I have no further questions.

2 MR. HUELSMANN: At this point we're going to
3 let one intervener that's here ask questions. And
4 I've got to apologize because I mispronounce her name.
5 Her name is Ann Cheuvront and I mispronounced it Cheu-
6 vaun, I believe. And I apologize to her. So Ms.
7 Cheuvront?

8 MS. CHEUVRONT: Apology accepted. I've
9 heard a lot of different pronunciations in my life.
10 I'm Ann Louise Cheuvront, I'm with the Office of
11 Attorney General and I do have a few follow up
12 questions. Thank you.

13 First, on one of your responses to the
14 commission's questions when you were talking about the
15 components in your gas commodity you said that the
16 interstate pipeline was subject to regulation. But
17 that's not PSC regulation is it?

18 MR. BILLINGS: Steve Billings. No, it's
19 subject to the Federal Energy Regulatory Commission in
20 Washington. They're oversight in regulation.

21 MS. CHEUVRONT: Thank you. To follow up a
22 little on the budget, do you recalculate the budget
23 quarterly or periodically to make sure that all of a
24 sudden it's not too low or not too high when it comes
25 to truing up in July?

1 MS. KING: Connie King. Yes, we start
2 watching those in January and we make adjustments
3 whenever they're necessary. We may make them in
4 January. They could be in February. We watch each
5 account each billing cycle.

6 MS. CHEUVRONT: You said that you were
7 liberal on your disconnects and the colder it gets and
8 more expensive it gets you consider being even more
9 liberal. Let's assume that for a hypothetical that
10 somebody was already disconnected.

11 MS. KING: Okay.

12 MS. CHEUVRONT: And they are still having a
13 little trouble getting to their zero balance but it's
14 starting to get cold outside. Would you be as liberal
15 working with them to try to get them reconnected?

16 MS. KING: We would probably deal with that
17 on a case-by-case basis. But we would encourage that
18 customer to see if any of the agencies in their local
19 service area could help them, and if not then we
20 would, you know, work with them on a case-by-case
21 basis.

22 MS. CHEUVRONT: Of your 40,000 customers how
23 many are residential?

24 MR. JENNINGS: About 35,000 roughly -- 34-
25 35,000.

1 MS. CHEUVRONT: How do you decide who you
2 send an IRP to - RFP.

3 MR. BILLINGS: Steve Billings. We have
4 experience with quite a few marketers on the system.
5 So we deal with people that we have experience with.
6 We also on a routine basis have marketers call and
7 want our business. And, quite candidly, there's not
8 too much difference in the bids that come in so seven
9 or eight is probably as good 70 or 80 in that there
10 won't be that much difference in the bids.

11 MS. CHEUVRONT: So would you say that your
12 -- the gas prices are basically comparable along the
13 lines as other utilities?

14 MR. BILLINGS: Steve Billings. Yes, to the
15 extent -- I think we have to keep in mind that Delta
16 is not as large as the other four utilities in the
17 state and they possibly have more bargaining power.
18 But we believe that we've gotten a fair contract each
19 time we've done this. And I think our GCR filings are
20 comparable to the other companies.

21 MS. CHEUVRONT: You have an \$8 customer
22 charge, and I noticed you have a handout on the table
23 as we came in and it just says a fixed charge on a
24 customer's bill is not dependant on usage. What is
25 the customer charged for, is it like -- well, if it's

1 not dependent on usage I guess not a minimum.

2 MR. HAZELRIGG: Bob Hazelrigg. The monthly
3 customer charge is intended to recover part of the
4 costs that are on going regardless of how much gas a
5 customer uses. There are certain costs that go on.
6 We still have to read meters. We still have to
7 prepare bills. We still have to prepare and maintain
8 lines. Those things are on-going regardless of how
9 much. And that's simply an effort to attempt to
10 recover part of those costs.

11 We have done cost of service studies in the
12 past that suggest that that monthly customer charge
13 should, in fact, be somewhat larger than that.

14 MS. CHEUVRONT: Is this something that just
15 started in your rate case or has it always been?

16 MR. HAZELRIGG: No, we have had a monthly
17 customer charge, quite frankly, for as long as I can
18 remember. I know we've had it at least 16 years.

19 MS. CHEUVRONT: I'm sorry to sound ignorant
20 but -- I haven't seen one of your bills. I wasn't
21 involved in a rate case.

22 MR. JENNINGS: I don't believe it changed in
23 the last rate case.

24 MR. HAZELRIGG: It did not.

25 MR. JENNINGS: It was left the same.

1 MS. CHEUVRONT: Okay, thank you.

2 MR. HAZELRIGG: I believe the monthly
3 customer charge was \$6 for a number of years up until
4 about 1994. And I think in 1994 it became \$8 and has
5 been that ever since.

6 MS. CHEUVRONT: You responded to the USF
7 question that -- I can't remember what the question
8 was -- about you would like to see a USF fund put into
9 place without enabling legislation. Do you -- are you
10 saying that you believe the PSC has jurisdiction to
11 put a USF in place without enabling legislation?

12 MR. JENNINGS: I'm not an attorney, and
13 proud of it. And we don't have counsel with us
14 tonight because we didn't feel it necessary. But he
15 accuses us of practicing law a lot.

16 We think that the commission has very broad
17 jurisdictional powers. And we believe that if the
18 commission -- if it was appropriate and made sense for
19 the industry and the people would say we think the
20 commission should do that, if it was done, you know,
21 with everyone being included and making sure that it
22 could be accomplished. There are other people who
23 think that it needs best done through the legislature.
24 That was tried during the last session and it didn't
25 make it anywhere.

1 I would like to see something done before
2 winter comes. Because the problem is here, it is now,
3 prices are high and they're not going to lessen. And
4 it is a situation that has to be dealt with. And
5 that's the only thing that I can see of any
6 significant magnitude if were applied to all electric
7 and gas companies in the state it would be a lot of
8 money available to help people this winter. Absent of
9 that, I don't see the legislature going into special
10 session to address universal service fund.

11 I've heard it said that if that passes -- if
12 that passes the vote in November that maybe they'll
13 have one after that. But I don't know that that's
14 going to be on the agenda. But I'd like to see it
15 done even if it has to be defended later, because at
16 least the people that need the help the worst would
17 have some way to get it. That's where I'm coming
18 from.

19 MS. CHEUVRONT: Do you think maybe another
20 way would -- I guess I shouldn't say this because
21 Family of Cabinets and Children -- the people who
22 handle LiHEAP maybe that would be another avenue that
23 would better be served in handling this area without
24 jurisdiction -- without legislation specifically
25 giving the PSC jurisdiction?

1 MR. BILLINGS: Well, the people that handle
2 the LiHEAP funds, you know, that would be a way to
3 distribute it to the people who need it the worse.
4 The problem is they're already distributing all that
5 they have and they generally run out, you know, before
6 the winter is over. And what I heard them say the
7 other day was that they're going to run out even
8 sooner now because they just don't have enough money
9 in the pot for them to distribute.

10 I'm not sure what agency would be best to
11 distribute additional funds. I don't think -- you
12 know, I think the feeling is that they've done a good
13 job doing what they do. Perhaps that would be an
14 appropriate place for the -- for it to be done if
15 there were more monies available.

16 MS. CHEUVRONT: I'll have more discussions
17 later. That's all I have right now.

18 MR. HUESLMANN: That's all the questions you
19 have?

20 MS. CHEUVRONT: Yes.

21 MR. HUESLMANN: I think I know the lawyers
22 for the other interveners and none of them are here.
23 Is there any other lawyers for the interveners here?
24 Okay. Any of the commissioners like to ask questions?
25 I'll ask a couple. Do you notice drilling going up in

1 Kentucky, the number of wells?

2 MR. BILLINGS: Steve Billings. We monitor
3 the weekly drilling permits and spudding reports that
4 come out of the Kentucky Division of Oil and Gas, and
5 particularly those in the five county areas here in
6 southeast Kentucky in which we purchase gas. And
7 there has been some increase. We're dealing with a
8 couple of producers in Bell County that we are
9 optimistic they're going to bring on some additional
10 gas and we're pleased to see that.

11 We've tried to cultivate drilling, local
12 drilling for 20 years in this area. We opened our
13 system up to open access in May of 1980 when it was
14 not even heard of in other places to haul people's gas
15 and thereby encourage drilling. So in answer to your
16 question, I think we are seeing some additional
17 drilling now, obviously spurred by the increasing
18 prices.

19 MR. HUELSMANN: What percent of your field
20 has been injected, and would you tell us how that
21 injection process is going?

22 MR. BILLINGS: Steve Billings. We have a
23 gas field that -- the Canada Mountain Gas Field that
24 produced over its lifetime about 6.6 BCF of gas. We
25 began developing that field in 1995. We have a base

1 gas volume of 2.2 BCF in the field. And we have a
2 working inventory target by mid October of 1.9 BCF of
3 gas. We're not exactly sure the total capacity that
4 field will have. But each year we're inching it up
5 and we are doing shut in twice a year at the end of
6 injection season, the end of the withdraw season, and
7 providing that to the experts and let them tell us
8 more about the field.

9 So we believe the field has room to grow as
10 our growth continues in this area. We don't know if
11 it will get back up to where we could have over four
12 BCF of gas, but we'll know in time as we use the
13 field.

14 MR. HUELSMANN: Do you have as much in the
15 field today as you had last year at this time?

16 MR. BILLINGS: Steve Billings. The winter
17 of 1998/99 was mild, and we came out of the winter
18 with about 400,000 MCF remaining in our working
19 inventory, and we injected gas all summer that year as
20 we have this year. And the volumes are somewhat
21 comparable to where they were last year. We will be
22 right back very close to 1.9 BCF again, and that's
23 about where we were this time last year.

24 MR. JENNINGS: Can I add to that?

25 MR. HULESMANN: Yes.

1 MR. JENNINGS: We manage our supply and
2 figure how much we need in storage with other supplies
3 that are available. And we had a target this year of
4 1.9 BCF along with all the other supplies available to
5 meet the needs that we see on the company. And we are
6 on target to be at that number. Matter of fact, we're
7 going to be storing up through probably another couple
8 of weeks.

9 MR. BILLINGS: The 18th is our intended shut
10 down.

11 MR. JENNINGS: And then we're going to shut
12 in at that point and then let it rest and test it for
13 a couple of weeks and then start withdrawing.

14 But now this weekend's forecast down below
15 freezing and even some snow forecast and we talked
16 this morning that we'll probably stop injecting for
17 the weekend. And that will have a significant impact
18 on that, but it won't affect overall where we are with
19 the field or supply.

20 Those are the kind of things that you have
21 to do in the what's called the shoulder months, you
22 know, when you get closer to cold weather.

23 MR. HUELSMANN: And just so everyone knows
24 when they watch television tonight, Northern Kentucky
25 shut down it's gas supply in Newport because of a hole

1 in one of the pipes and they're predicting snow for
2 this weekend. So the PSC is very concerned about
3 those individuals.

4 MR. HOLMES: I do have one question. The
5 percentage increase that we're seeing -- and those
6 will be seen, I guess, in the bills for this coming
7 winter months or what months will that be, and when is
8 your next gas cost adjustment?

9 MR. BILLINGS: Well, the numbers that we've
10 compared, the stuff that I had on my presentation is
11 that we're seeing about a 30 percent increase from
12 like the start of the year to where we are with rates
13 now. So we're in that 30 percent range, roughly.
14 Total rates.

15 MR. HOLMES: And then on your next purchase
16 gas adjustment when will that --

17 MR. JENNINGS: We have -- we made a filing
18 about a week ago or a week and a half ago that will be
19 effective November 1, or is requested to be effective
20 November 1. That would be an additional increase
21 because index prices went up about another dollar.
22 And so that will be probably -- I think we figured
23 that would be closer to 40 percent from the start of
24 the year till November when you compare those two.

25 MR. HOLMES: So that filing in November once

1 that's approved, those are probably the rates that
2 we'll be seeing in the winter months?

3 MR. JENNINGS: That's correct.

4 MR. HAZELRIGG: Those rates would be in
5 effect until February 1st.

6 MR. HOLMES: February.

7 MR. JENNINGS: From November 1 through the
8 end of January.

9 MR. HULESMANN: I have one last question.
10 The winter I remember most is the winter of 1977-1978;
11 I forget which. Remembering that year and the cold
12 temperatures there, does Delta believe it has enough
13 gas for the citizens that it serves?

14 MR. JENNINGS: Yes. Steve could answer it.

15 MR. BILLINGS: Steve Billings.

16 MR. JENNINGS: I could. Either one. But
17 the answer is yes. We debate that constantly at the
18 company to make sure that we can. And I remember the
19 winters of '75, 6, and 7 through there. I lived in
20 Cincinnati at the time, and I remember working with my
21 gloves on in an office building because there wasn't
22 any heat because the gas was turned off. So we are
23 very sensitive to that and feel that we have adequate
24 pipeline storage and supply capacity to handle
25 whatever comes.

1 MR. BILLINGS: I might add to it that that
2 particular winter of '77/78 is the coldest on record
3 back for about 90 years. We've got about 90 years
4 worth of records. And when the question was asked
5 about worst case, we factor in those worst-case
6 months. Not only just looking at worst case peak day,
7 but we also look at an extended cold spell. And we
8 believe we're adequately supplied without incurring
9 the cost of redundancy.

10 MR. HUELSMANN: Ms. Mitchell, do you have
11 anything?

12 MS. MITHCELL: I have no further questions.

13 MR. HUELSMANN: Ms. Cheuvront?

14 MS. CHEUVRONT: I have nothing.

15 MR. HUELSMANN: Ms. Hale, did anybody sign
16 in for me to ask a questions of them? I know they
17 want to speak, but --

18 MS. HALE: No.

19 MR. HUELSMANN: That will conclude the
20 formal aspect of this meeting. But the people out
21 here want to talk and I am just in the -- the
22 commissioners are just extremely happy to have so many
23 people out there that want to talk. So if I'll call
24 out the first name and then you'd come to where Mr.
25 Jennings is leaving from. If you want to make some

1 comments we would appreciate it.

2 We need to take a break? We need to take
3 about a 15 second break so we can change the tape.

4 (OFF THE RECORD)

5 MR. HUELSMANN: We've got several people
6 that signed in to speak. That doesn't mean that the
7 rest of the people will not have the opportunity to
8 speak. And after that we're going to have comments.
9 I see people from the Cabinet for Families and
10 Children and from the Kentucky Association of
11 Community Action. I believe Natural Resources is
12 going to be here. And our people from Public Service
13 will be here.

14 So the first person's name I've got is Meg
15 Moore. If you would, go to the microphone here, right
16 with Ms. Chevront and state your name and spell your
17 last name so we've got it for the record, then you can
18 say whatever you'd like.

19 MS. MOORE: I didn't know I would be first,
20 so this is -- my name is Meg Moore. And I'm with
21 Kentuckians for the Commonwealth, which is a social
22 justice group in Kentucky. And I'm here in support of
23 Power, which is a group in Louisville, which has made
24 several proposals or -- I'm not sure if they've made
25 them or they are about to make them concerning the

1 universal service fund and disconnect/reconnect fees
2 in Louisville.

3 And I'm here with other members of the
4 Laurel County chapter of Kentuckians for the
5 Commonwealth. And we are here in support of those
6 Power proposals.

7 MR. HUELSMANN: So I take it when we get to
8 Louisville which will be, I think, not next Monday but
9 the following Monday they will be making a
10 presentation to us there?

11 MS. MOORE: Yes. Yes.

12 MR. HUELSMANN: Thank you. You're just
13 ahead of us on that one.

14 MS. MOORE: And they will be able to explain
15 it, you know.

16 MR. HUELSMANN: Thank you.

17 MS. MOORE: Thank you.

18 MR. HUELSMANN: Peggy Woods is the next
19 person I had who put a question mark.

20 MS. WOODS: I don't have a comment at this
21 time. Thank you.

22 MR. HUELSMANN: Thank you. Cleo Goodlett?

23 MR. GOODLETT: Goodlett.

24 MR. HUELSMANN: And I probably mispronounced
25 that, so go ahead.

1 MR. GOODLETT: You made a stab at it any
2 way. As far as a homeowner --

3 MR. HUELSMANN: State your name if you would
4 and spell your last name.

5 MR. GOODLETT: Cleo Goodlett, C-L-E-O, G-O-
6 O-D-L-E-T-T.

7 MR. HUELSMANN: Okay.

8 MR. GOODLETT: I'd like to ask the question,
9 due to the price increase, the questions of Delta
10 refusing any new customers because of the price
11 increase?

12 MR. HUELSMANN: I think that's a legitimate
13 question and I'll ask it - - he cannot ask it but I
14 can. Is there any price refusals to as people get gas
15 in your area that you serve who are new to Delta? Are
16 you refusing customers, is another way.

17 MR. JENNINGS: The question is does Delta
18 refuse to serve people because of the pricing being
19 higher?

20 MR. GOODLETT: Um-huh.

21 MR. JENNINGS: Is that your question?

22 MR. GOODLETT: Um-huh.

23 MR. JENNINGS: Well, the answer is no.
24 Matter of fact, we are very willing and interested in
25 serving new customers, not refusing them.

1 MR. GOODLETT: Due to the question, I have
2 been refused as a homeowner of being purchasing gas
3 from Delta because of the price increase.

4 MR. HUELSMANN: You have been?

5 MR. GOODLETT: I have been.

6 MR. HUELSMANN: I think probably we can
7 rectify that this evening. Why don't you go ahead and
8 explain though for the record what happened and tell
9 us about it.

10 MR. GOODLETT: Due to purchasing a property,
11 the question was brought to Delta before the purchase
12 of the property. I was requested if they would supply
13 me with natural gas there. And I was requested they
14 were -- would. And that was at the point in time that
15 Delta was purchasing gas from Wiser (phonetic) Oil.
16 After Wiser Oil was sold out to Columbia. In the
17 apparent transaction when I called back to be tapped
18 onto the line, which is in 50 feet of my home, Delta
19 refused because of the price increase that Columbia
20 gave them. And that's what I have been submitted to
21 from Delta as well as Columbia.

22 MR. HUELSMANN: When did this occur, sir?

23 MR. GOODLETT: I requested to Delta back in
24 October of '99 about the tapping and they said there
25 would be no problem. That was in the time that Wiser

1 Oil, that was in the company that owned the line
2 that's in my back yard. After building the home up
3 till just recently, probably say a month ago or two
4 months ago, I requested to Delta that I would like to
5 have my tap made. And I was refused not to make the
6 tap. I went to Columbia, asked the same question, I
7 was refused because of the dispute of price increase.

8 MR. HUELSMANN: Mr. Goodlett, this is a
9 perfect time for me to give a PSC pitch for our 800
10 number, it's 1-800-PSC-INFO. I will take and
11 personally have our director of consumer services call
12 you tomorrow morning. And your number is 859 -- or is
13 it 606? 606-546-9103?

14 MS. GOODLETT: 526.

15 MR. HUELSMANN: 526?

16 MS. GOODLETT: 9103.

17 MR. HUELSMANN: 9103. We have a consumer
18 service division. Anybody that ever has a complaint
19 against any utility that we regulate, feel free to
20 call them and they will work with the company and try
21 to get it resolved. And I think that's the best bet.
22 I'll do that. Although the company may very well want
23 to talk to you before you leave today. But I will
24 have Virginia Smith call you or your spouse tomorrow
25 morning.

1 MR. GOODLETT: But can I add just something
2 to this?

3 MR. HUELSMANN: Go ahead.

4 MR. GOODLETT: That I have talked to your
5 cabinet today. Not only today, previous times about
6 this issue. The issue has always been handed back to
7 Delta to confront them about the matter. I look at it
8 this way, I was told -- and it may be completely out
9 of line, all right? But I was told that when I was
10 building a new home I purchased a gas furnace, natural
11 gas furnace to be supplied by Delta Gas that I had
12 been told that I would have a tap.

13 And I purchased that and then I turn right
14 around and now here I am going into December before I
15 can get gas because we're looking at most tanks that
16 are propane tanks out in the world today they cannot
17 set one for five weeks, four to five weeks in every
18 area. I call it an issue of problem, you know, as far
19 as the price increase there.

20 MR. HUELSMANN: Do any of you want to
21 comment at this point?

22 MR. JENNINGS: I would like to.

23 MR. HUELSMANN: Would you like to, Mr.
24 Jennings?

25 MR. JENNINGS: I would like to, yes. It

1 will take a minute because this is a problem that
2 exists and it's been there ever since Wiser sold their
3 system to CNR, Columbia Natural Resources. So the
4 problem is this. We had an agreement with Wiser Oil
5 for years that anybody that wanted to come on our
6 system that was on a Wiser gathering line we agreed to
7 take them as a customer, tap Wiser line, let Wiser
8 supply the gas to us, we pay for the gas and then
9 those people were Delta Natural Gas customers. That's
10 been that way -- we negotiated that agreement back in
11 early '80's with Wiser up until the sold to CNR, okay?
12 And that's the way it operated.

13 After CNR bought Wiser Oil they didn't want
14 to operate that way anymore. They came to us -- we
15 went to them actually. Steve Billings negotiated with
16 them. If you look at our GCR filing or gas cost they
17 are our highest cost supplier by far. That's because
18 we have 600 to maybe --

19 MR. BILLINGS: Eight hundred now.

20 MR. JENNINGS: -- 800 customers on Wiser
21 gathering lines, not Delta transmission lines, they're
22 lines coming from wells and we tap their line and we
23 have those customers that are Delta customers under
24 Delta's rates and tariffs served on the Wiser and now
25 CNR gathering line.

1 And we had an agreement with Wiser Oil to do
2 that. That agreement terminated when the Wiser Oil
3 contract terminated about the time CNR bought them.
4 It's a real problem. You brought it up. We've been
5 dealing with it now for the last year. Customers go
6 to CNR and they say you have to go see Delta Gas.
7 That is not correct.

8 We don't have a contract with them except
9 for existing customers that were there when they
10 bought it. And we do not have an agreement with them
11 to take on new customers on their gathering lines
12 because they wanted to treat it like an interstate
13 pipeline with demand charges --

14 MR. BILLINGS: BTU adjustment.

15 MR. JENNINGS: -- BTU adjustment --

16 MR. BILLINGS: No quality standards.

17 MR. JENNINGS: -- no quality standards,
18 untreated gas with liquids and different things in it.
19 But they wanted the price to be much higher than what
20 everybody else is charging for gas. And it is. And
21 it's in our rates now for those 6 or 800 customers.

22 We would like nothing better than to go back
23 to the way it was and be able to supply customers off
24 those gathering lines in the future. We'd like
25 nothing better than to pick you up as a customer. But

1 you're in the midst of something that came about
2 because of the selling of Wiser Oil to someone. And
3 we even looked at those properties to buy them
4 ourselves and just couldn't -- didn't think it would
5 justify for the price they were looking at so we
6 passed on it. That would solve the problem completely
7 because we would have owned the gathering line.

8 But we have, like I say, a lot of customers
9 on those gathering lines and we would like to have
10 more. But we feel like that we're being held hostage
11 for supply, terms, and unreasonable conditions. Steve
12 negotiated for how long with them, six months?

13 MR. BILLINGS: Several months. It was a
14 situation where it was one-sided negotiation because
15 there's no other supply to these 800 customers but
16 CNR. And prior to October of 1999 when our 20 year
17 contract with Wiser ran out and our obligation to
18 serve farm-type customers in our service areas ran
19 out, after that we just have no further obligation.
20 And, quite candidly, I think I speak on behalf of the
21 company, we would not mind having some sort of formal
22 addressing of this problem because it is putting folks
23 like you in the middle and we don't want that to
24 happen. But we don't have any more obligations to put
25 customers on CNR's line than we do to go into Perry

1 County and put it on Hazard Gas line. I mean, they
2 own those facilities. And I'm not an attorney either,
3 like Glenn, but we believe that an owner, an operator
4 of a gathering line has some obligation under KRS
5 278.485 to hook up what's known as farm-type
6 customers. And we would like to see a resolution of
7 this situation.

8 I think one other point I could say on
9 behalf of the company, that is if someone from Delta
10 Natural Gas promised you gas in 1999 we will honor
11 that promise and hook you up on Wiser's pipeline or
12 CNR's pipeline. We've done that in a couple of cases
13 where people were committed to prior to the
14 termination of the contract that we had with them. We
15 will honor those verbal commitments when they can be
16 verified. Other than that we are not taking on new
17 customers on CNR's pipeline.

18 MR. GOODLETT: Well, you see my issue?

19 MR. HUELSMANN: I think you --

20 MR. JENNINGS: Certainly. I see it very
21 clearly.

22 MR. HUELSMANN: I think you've got a
23 problem, but it seems to me that you need to work that
24 out with CNR or the group of you put pressure on CNR
25 to negotiate a contract with Delta that's --

1 MR. GOODLETT: Yeah, but --

2 MR. HUELSMANN: -- that's -- maybe you all
3 ought to get together as a group and hire a lawyer and
4 maybe you can get some result.

5 Did our people at PSC tell you this today or
6 did they just --

7 MR. GOODLETT: They told me to be there
8 tonight and to ask the question.

9 MR. HUELSMANN: Okay, good. We will look
10 into it and you can file a formal complaint if you
11 don't like what we tell you. And we got a procedure
12 to go through that. So -- and we will call you
13 tomorrow morning.

14 MR. GOODLETT: The only -- the only
15 complaint I have was the issue that I was told that it
16 would be -- I could be hooked on to the gas line. And
17 I don't know about you, I'm just a mediocre man, I
18 don't have a great substantial income and I go out and
19 purchase a gas furnace and they don't come cheap.

20 MR. HOLMES: Who told you that?

21 MR. GOODLETT: What?

22 MR. HOLMES: Who told you that you would be
23 hooked up?

24 MR. GOODLETT: Well, I had called Delta
25 because Columbia had told me -- I mean, no, Wiser,

1 excuse me -- when Wiser Oil, when you all were making
2 taps for Wiser Oil, Wiser Oil told me I had to contact
3 Delta Gas to get the tap. I did make the contact. I
4 wish I had --

5 MR. JENNINGS: Do you know who you talked
6 to?

7 MR. GOODLETT: I wish I had wrote the name
8 down but I didn't. I'm sorry. I was just a mediocre
9 homeowner.

10 MR. JENNINGS: Between that time and the
11 time you got ready for it --

12 MR. GOODLETT: Right.

13 MR. JENNINGS: -- they sold it?

14 MR. GOODLETT: They sold it. They sold it
15 in the Fall of the year shortly --

16 MR. JENNINGS: You are not the only person
17 that has had this problem with CNR. We have -- I have
18 had, personally had calls from people because of this
19 problem. Steve has. Other people have in the
20 company. We have talked with different people at
21 commission staff level about this problem.

22 The problem is that CNR is not under the
23 jurisdiction of the PSC. They're not a regulated
24 utility. Delta Gas is. If we could continue the
25 relationship we had before Wiser was sold with CNR,

1 we'd be happy to hook up every customer that they
2 could possibly have.

3 And we'll look at your situation. But I'd
4 love it if you filed a complaint. I'd like to air
5 this --

6 MR. GOODLETT: File a complaint with who?

7 MR. JENNINGS: Delta Gas.

8 MR. GOODLETT: I've done filed two
9 complaints with them.

10 MR. HUELSMANN: Written complaints?

11 MR. JENNINGS: I'd be glad to help you.

12 MR. HUELSMANN: On this issue?

13 MR. GOODLETT: On this issue.

14 MR. HUELSMANN: Why don't we talk, if you
15 can -- I'm sure they'd probably like to talk to you
16 later tonight and maybe we can talk to you a little
17 bit and see if we can help you out. And maybe -- Ms.
18 Cheuvront, is there anything the Attorney General's
19 Office -- does this sound like it may be something you
20 could look in to? I hate to put you on the spot.

21 MS. CHEUVRONT: I will look into it. We
22 have looked into some farm taps, but I know they're a
23 different sort of animal.

24 MR. HUELSMANN: If you would, thank you.
25 Anybody else? We have some other people who have

1 requested to address us and give comments. Our first
2 group is the Cabinet for Families and Children, Mr.
3 Cliff Jennings, and the Kentucky Association of
4 Community Action, Mr. Kipp Bowmar.

5 MR. BOWMAR: Where would you like me to sit?

6 MR. HUELSMANN: Right there. Ms.
7 Cheuvront's going to move over.

8 MR. HUELSMANN: Go ahead, Mr. Jennings.

9 MR. JENNINGS: Thank you. My name is Cliff
10 Jennings. I am with the Cabinet for Families and
11 Children Department for Community Based Services. Buy
12 fuel or buy food? Buy fuel or buy medicine? These
13 are hard choices that many of our low-income families,
14 the senior citizens, the disabled, will have to face
15 and make this winter. These are not choices that we
16 should be willing to accept.

17 The Cabinet for Families and Children
18 accepts -- or operates LiHEAP program state wide, and
19 contracts with the Kentucky Association for Community
20 Action and through them the state's community action
21 agencies to operate the LiHEAP program -- that's the
22 Low Income Home Energy Assistance Program -- locally
23 in every county of the commonwealth.

24 We are deeply concerned about the rising
25 cost of fuel, especially the cost of natural gas for

1 the low-income citizens of the commonwealth. There
2 are increasing indications that the price of home
3 energy, natural gas, propane, fuel oil, kerosene, wood
4 and coal is on the rise.

5 With the gasoline prices remaining high, the
6 cost to deliver wood and coal will rise, maybe ten
7 percent, but we expect to see an increase. With
8 natural gas prices predicted to increase this winter
9 by as much as 50 percent from last winter, the lives
10 of the elderly, the low-income, the disabled, and
11 families with small children will be dramatically
12 impacted. Low-income families, senior citizens, and
13 the disabled will be forced to make a choice. That is
14 to buy fuel, buy food; or buy fuel or buy medicine.

15 If the winter is extremely severe or there
16 are extended periods of very cold weather, the problem
17 will be even more critical and could reach a dangerous
18 level. Studies show that the low-income households
19 spend between 14 and 18 percent of their total income
20 on average for heating costs.

21 For example, a family of four with a gross
22 income of \$1,200 a month, that's gross income before
23 taxes, which is also approximately 85 percent of
24 poverty, would spend from \$170 to \$215 monthly on
25 their heating cost.

1 Conversely, other households spend between
2 three and a half and seven percent of their household
3 income on heating costs. Studies also show that the
4 elderly are likely to pay their heating bills at the
5 expense of food or medicine.

6 Nationally, LiHEAP is insufficient to meet
7 the needs or demands of energy assistance for the low-
8 income population and especially during this time of
9 these significantly increased heating costs. Under
10 LiHEAP only those who have income at or below 110
11 percent of poverty are eligible for help. Those who
12 are above 110 percent of poverty do not qualify for
13 LiHEAP.

14 For those who are eligible the LiHEAP
15 benefit is small compared to the actual cost of
16 heating their homes. In subsidy last year the average
17 one time benefit, taking into account all the fuel
18 types, was \$92.00. And last year we served 94,931
19 households. For natural gas, the average cost of the
20 benefit was even lower, it was \$82.00.

21 In the case of a family of four, let's
22 assume they heat with natural gas, their heating costs
23 for the winter months would cost from \$840 to
24 approximately \$1,000. In the crisis component the
25 maximum benefit for natural gas was \$100.

1 To what extent will these benefits assist a
2 family if natural gas prices increase by 50 percent?
3 Last year we served 48,376 households in our crisis
4 component. Individuals, especially the elderly, are
5 becoming worried, even frightened about the prospect
6 of higher heating bills this winter. They have heard
7 the news reports. One senior citizen states, I am on
8 a fixed income and cannot save for big increases in my
9 gas bill. My medications cost almost \$300 a month.
10 What am I going to do?

11 Kentucky is faced with significant funding
12 issues. Only those with annual income at or below 110
13 percent of poverty receive help with LiHEAP. The
14 LiHEAP benefits amounts will only cover a small
15 portion of the winter heating costs.

16 Many people have heard that President
17 Clinton has released emergency funds and we are
18 extremely grateful for these funds and that they have
19 been released so early this winter. But I do want to
20 clarify, however, that these funds are not new dollars
21 but are advanced releases of emergency funds that are
22 appropriated annually for the president to release in
23 times of winter related or energy related emergencies.

24 Other than Winter Care there are no other
25 significant sources of funds available. Our most

1 vulnerable population, who are dealing with fixed or
2 limited resources and incomes are struggling with
3 these increased energy costs.

4 We cannot do it alone. We need community
5 involvement in addressing this issue so that no one
6 has to choose between buying fuel or buying food;
7 buying fuel or buying medicine.

8 How is the Cabinet for Families and Children
9 addressing the problem? We're attending hearings such
10 as these and speaking out. We are facilitating two
11 other sessions, which will address not only the
12 natural gas but the increased cost in all fuels. We
13 are asking community resources to become more involved
14 and lend a helping hand with the situation.

15 Governor Patton joined with governors of
16 other states and asked the president to release the
17 emergency funds before the winter begins rather than
18 during the later part of the winter. On Saturday,
19 September 23rd the president released 400 million in
20 emergency funds to the states. Kentucky's share of
21 the emergency funds is 4.7 million. But, again, these
22 are advanced funds that were provided instead of later
23 in the winter.

24 We are supporting increased federal funding
25 for Low-income Home Energy Assistance Program and

1 weatherization services. We encourage the utilities
2 to maintain humane cutoff policies. We are
3 encouraging citizens to make contributions on their
4 monthly utility bills for Winter Care, which will
5 assist the low-income households.

6 We appreciate the effort of the Public
7 Service Commission in holding these hearings. It is
8 an opportunity for all of us, the energy providers,
9 the public agencies at state and local level, and all
10 other citizens and any other organization out there to
11 start coming together to begin this work so that our
12 friends and neighbors on fixed incomes and limited
13 incomes do not have to face these difficult choices.

14 The state and community action agencies
15 cannot do it all. There must be a coordinated effort
16 statewide. Therefore, we are asking that all
17 community resources help, from elected officials to
18 church groups, to the private sector to civic
19 organizations, to private citizens to the utilities,
20 and any other group in the community who can help keep
21 somebody from freezing this winter come together and
22 work on this issue; that is providing resources such
23 as blankets, emergency shelter, emergency space
24 heaters, or assisting in helping a person pay their
25 bill so they do not go without energy this winter.

1 These community resources already help. But
2 I would like for them to dig deeper and help more.
3 Thank you.

4 MR. HUELSMANN: Mr. Bowmar?

5 MR. BOWMAR: My name is Kipp Bowmar and I'm
6 the executive director of the Kentucky Association for
7 Community Action. I'll keep my remarks brief and in
8 complement to what Mr. Jennings has said.

9 I would like to start with a thank you to
10 the Public Service Commission for having these forums
11 all across the state. I think it's a very good idea
12 to let the citizens of the commonwealth know that in
13 fact these price increases are coming and giving them
14 an opportunity to understand the reasons why as well
15 as to give them an opportunity to speak out at these
16 hearings.

17 I would also like to extend a thanks to
18 Delta Natural Gas for their support of a universal
19 service fund which would really -- as Mr. Jennings
20 indicated, there are not enough resources through
21 existing federal programs such as the Low-income Home
22 Energy Assistance Program and the Weatherization
23 Program.

24 KACA, my organization, operates the LiHEAP
25 program with a grant from the Cabinet and subcontracts

1 it to the 23 agencies. As Mr. Jennings said, last
2 year we ran out of money. We ended up -- we used to
3 close the program on April 30th every winter. Now we
4 close on March 15th and we still have agencies that
5 close down early. Last year we got 1.6 million
6 dollars of emergency crisis assistance money. And
7 while that enabled us to serve about an additional
8 20,000 households in the crisis program, many of the
9 agencies that received those emergency contingency
10 dollars still had to close by the first of March. And
11 if gas prices go up 50 percent on top of that, we'll
12 be looking at some potential real crisis situations,
13 particularly if the winter is colder than normal. So
14 there is something that needs to be done, and we do
15 believe, along with Mr. Jennings from Delta Natural
16 Gas, that a universal service fund can be a very
17 beneficial way of doing that. And a one dollar a
18 month per meter per month charge could generate a
19 great deal of resources. We believe if it was on all
20 electric and natural gas meters it could raise between
21 10 to 20 million dollars a year to address energy
22 affordability issues, and that would have a
23 substantial impact on helping low-income customers
24 around the state.

25 I would also like to thank Delta Gas. I

1 know from the experience of working with the local
2 community action agencies, they frequently talk about
3 how good Delta is in working out payment plans for
4 low-income customers and particularly on their shut
5 offs in the winter. And that is really appreciated.
6 And that really makes a difference particularly in
7 winters where, you know, LiHEAP's going to have to
8 shut down early, and those kinds of things do make a
9 difference and they do make an impact.

10 But as Cliff has said that we'll need to do
11 more this winter. And we do call on other groups in
12 the community, ministerial associations, other non-
13 profits if they have resources available that they can
14 set aside some dollars, because there are thousands
15 and tens of thousands of households around the state
16 above 110 percent of poverty that are ineligible to
17 receive the assistance simply because we don't have
18 the funds.

19 The federal regulations allow us to go up to
20 150 percent of poverty if we so chose, but we just
21 don't have the funds to do it. I mean, we run out of
22 money at 110 percent. So a universal service fund
23 would go a long way to helping us serve those clients
24 as well as the clients above 110 percent of poverty.

25 So thank you very much for giving me an

1 opportunity to speak.

2 MR. HUELSMANN: Thank you. I haven't seen
3 Mr. Davies, John Davies. You're from the -- you're
4 filling in for Mr. Davies. Natural Resource
5 Environmental Protection Cabinet has a spokeswoman
6 that would like to talk to us.

7 MS. LANDRY: Good evening, I'm Karen Landry.
8 I'm from the Kentucky Division of Energy, which is
9 part of the Cabinet for Natural Resources and
10 Environmental Protection.

11 And first I'd like to thank the Public
12 Service Commission for allowing us to comment this
13 evening. It's been a very full evening and because of
14 that my remarks brief and hopefully helpful.

15 Our purpose this evening is twofold. First,
16 to explain who we are in our energy role within the
17 commonwealth. And second, which is perhaps more
18 important, to highlight what families and businesses
19 can do to reduce their energy bills through simple yet
20 effective energy conservation practices.

21 The Division of Energy is a state agency
22 whose mission is to promote healthier, more prosperous
23 and sustainable future through the wise use of energy.
24 The division's history extends more than 25 years,
25 originating from the energy crisis in the 1970's when

1 national energy security and energy conservation
2 issues gained public attention. Since its inception
3 the Division of Energy, through the partnership with
4 the United States Department of Energy, has helped
5 Kentucky Schools and hospitals save an average of 25
6 percent on energy costs in more than 1,100 buildings
7 throughout the state. We've launched an energy
8 efficiency program for state government buildings.
9 We've promoted the use of alternative fuel such as
10 compressed natural gas and ethanol. And we've
11 prepared for and responded to energy emergencies to
12 lessen their impact.

13 These are just a few examples of our
14 programs. And while our mission remains the same, our
15 focus changes from time to time to respond to energy
16 issues and challenges.

17 Today, despite the great energy efficiency
18 gains we have made over the years, our state and our
19 nation still confront serious energy issues that
20 affect our economy, health, and environment. The
21 approaching winter season presents us with such a
22 situation.

23 As a non-regulatory state agency the
24 division works with others on a voluntary cooperative
25 basis to ensure that energy emergency issues are

1 resolved. We promote contingency planning on the part
2 of both individuals and organizations to anticipate
3 and reduce the impact of energy problems. Most
4 everyone recalls the efforts to prepare for the new
5 millennium. The Division of Energy was one of the key
6 agencies working on and inner agency task force to
7 plan for energy problems that could have resulted from
8 Y2K.

9 We have also partnered with the Division of
10 Emergency Management, energy suppliers, other states,
11 and the federal government to resolve energy supply
12 and distribution problems caused by severe winter
13 conditions. We did this as recently as January 2000.
14 I see our current situation as requiring a similar
15 effort to prepare for problems that may arise from
16 higher energy prices and tighter supplies.

17 The Division in conjunction with five other
18 state agencies has formed a winter fuels working group
19 to determine how the state government can best prepare
20 for potential energy challenges ahead. The other
21 agencies are the Public Service Commission, the
22 Kentucky Division of Emergency Management, the Office
23 of the Attorney General, the Cabinet for Families and
24 Children, and the Cabinet for Economic Development,
25 all under the purview of the governor's office.

1 Our winter fuels working group will address
2 such issues as obtaining reliable information on
3 energy supply, demand in prices throughout the
4 commonwealth, reviewing and updating Kentucky's
5 existing emergency operation plans as they relate to
6 energy supply, coordinating the appropriate response
7 among state agencies and working with other states,
8 the federal government and non-governmental
9 organizations to implement solutions.

10 This hearing focuses specifically on natural
11 gas. But all of us who have bought gasoline, read a
12 newspaper, or heard a news broadcast in this past
13 several weeks are well aware that the cost of oil is
14 near records highs. Prices for petroleum products
15 whether gasoline, heating oil, diesel fuel or propane
16 are determined on the world market. And this market
17 has risen steeply.

18 Less than two years ago a barrel of oil sold
19 for about \$10. In recent weeks that same barrel of
20 oil brought nearly four times that much. Tight supply
21 and higher natural gas costs may lead to even higher
22 prices for other heating sources such as heating oil
23 and propane. Together these three products, heating
24 oil, natural gas, and propane heat 59 percent of
25 Kentucky homes.

1 While heating costs may be up 20 to 40
2 percent this winter, we can save an equal amount by
3 adopting energy saving practices. And let me share
4 some of these common sense tips with you. And I must
5 admit they're not glamorous, but they do work and they
6 have a proven effective. And as a side note, I have
7 some of these tips in publications on the table in the
8 hallway.

9 So first, we recommend that you keep your
10 furnace tuned and in top condition. Proper
11 maintenance of your furnace can save six to ten
12 percent of your heating bill.

13 We also recommend that you winterize your
14 home to prevent heat loss through caulking, weather
15 stripping around all of your windows, outside doors,
16 or where plumbing and electrical wiring penetrate
17 exterior walls, floor, or ceilings. By sealing leaks
18 you can save 10 to 25 percent on your heating bill.

19 Next, control the temperature in your home.
20 Keep the thermostat on the lowest setting at which you
21 are comfortable. Each degree you lower your
22 thermostat can save two to three percent on your
23 energy bill. And if you set your thermostat back from
24 72 degrees to 64 degrees for eight hours, for example,
25 those hours when you are away from the home during the

1 day, you can save from five to ten percent on your
2 winter heating bill. Using a programmable thermostat
3 can do this for you and the cost -- the energy savings
4 will pay for the cost of the programmable thermostat
5 in the long run.

6 In Kentucky we recommend that people have
7 R30 insulation in their attics. And if you go from an
8 R19 insulation to R30 you can save another 15 percent
9 on your heating costs.

10 Water heating, which typically accounts for
11 14 percent of your utility bill, you can save through
12 -- by repairing leaky faucets, insulating your water
13 heater and hot water pipes and setting your hot water
14 thermostat to 120 degrees or low. Also install low
15 flow faucets and showerheads to save even more.

16 We also recommend you use your kitchen,
17 bath, and other ventilating fans sparingly. In one
18 hour they can pull out a whole house full of warmed
19 air.

20 And, also on the last item I want to
21 recommend here is that you keep your flue damper
22 closed when you are not using it. The fireplace is
23 really not an efficient source of heat. And although
24 they warm the surrounding area they also draw much of
25 the heat in your home out through the chimney.

1 Adopting these measures can help you lower
2 the cost of heating your home while increasing your
3 comfort during the winter. And many of these energy
4 saving tips such as adjusting thermostats, reducing
5 hot water temperatures, sealing ductwork, and
6 performing routine maintenance on furnace equipment
7 apply to businesses and industry as well.

8 Speaking of businesses and industries. And
9 if you are a commercial or industrial natural gas
10 customer on an interruptible contract be sure your
11 standby equipment is working properly and that you
12 have adequate supplies of standby fuel on hand or
13 under contract for delivery.

14 Remember in the unlikely event we do
15 experience actual shortages of natural gas, other
16 interruptible customers are going to need the same
17 fuels you will. Also be sure to stay in close contact
18 with your standby fuel supplier.

19 As I said, energy conservation is not
20 glamorous but it does work. Those in our communities
21 who can at least afford higher energy prices might be
22 faced with difficult decisions. We recognize the
23 choices many low-income households will have to face,
24 pay for energy, pay for food or medication or life's
25 other necessities.

1 There are no easy answers, especially in the
2 short run. All of us together need to start taking
3 those actions that will make us less dependant on
4 foreign oil and more energy self sufficient. Energy
5 efficiency and conservation are steps in that
6 direction.

7 Again, I'd like to thank the Public Service
8 Commission for allowing us to speak tonight. And a
9 reminder we have resources in the hall and I'm here if
10 anybody has questions.

11 MR. HUELSMANN: Thank you very much. The
12 next person who is going to talk is from our Public
13 Service Commission and it's not Jenny Smith. She had
14 an illness in the family and couldn't be here tonight.
15 It's our director of financial analysis Mr. Aaron
16 Greenwell.

17 MR. GREENWELL: Thank you, Mr. Chairman. My
18 name is Aaron Greenwell. I'm the director of the
19 Financial Analysis Division at the Kentucky Public
20 Service Commission. And Mr. Goodlett, right now I
21 think I'm glad I'm not Jenny Smith.

22 My purpose tonight is to inform you how to
23 contact the Public Service Commission. There is a --
24 and I'll be brief because I know it's the end of the
25 meeting. There is a sheet outside on the front

1 hallway with all the information that you need to
2 contact us. The Commission can be contacted by fax,
3 that number is included there. We can be contacted on
4 our website. We have an excellent website with a
5 tremendous amount of information. And it also has two
6 links to file complaints with our consumer services
7 division. We can be contacted by walk-in at our
8 office Frankfort. And we can also be contacted by
9 mail.

10 There are two ways that we can be contacted by
11 telephone. Our main phone number is area code 502-
12 564-3940 and our utility consumer hotline, which is
13 generally for complaints, is a toll free number. As
14 Chairman Huelsmann indicated, it's 1-800-PSC-INFO or
15 772-4636. Our consumer services division handles
16 hundreds of calls monthly and thousands of calls
17 yearly. Most of those calls are concerns about
18 utility bills or are treated informal complaints. The
19 vast majority of those are handled in due process and
20 to the satisfaction of both the company and the
21 individual.

22 Mr. Goodlett, you are the exception rather
23 than the rule. And it indicates that sometimes the
24 commission's hands are tied when we're dealing with
25 non-regulated utilities. So I would encourage anybody

1 that does have a concern with regard to bill or any
2 aspect of your utility service, please first contact
3 the utility. If you do not receive satisfaction, feel
4 free to call the consumer hotline or to contact us in
5 any other fashion. Thank you.

6 MR. HUELSMANN: Thank you, Mr. Greenwell.
7 Ms. Mitchell, do you have any closing statements you
8 want to make?

9 MS. MITCHELL: No.

10 MR. HUELSMANN: Ms. Cheuvront?

11 MS. CHEUVRONT: I do have a brief closing
12 statement, thank you, and I think by the time I get to
13 Owensboro I'll just say ditto. Like everybody else I
14 would like to thank you for this forum. I think it's
15 -- even though it's a formal hearing the relaxation of
16 it has really, I feel, gotten more information and
17 made it very useful.

18 I appreciate the fact that we actually have
19 consumers here tonight. It's made it worthwhile to
20 drive down here. Lexington -- I was thinking why
21 didn't we just stay in Frankfort, but this has really
22 made it worth coming down here.

23 We recognize that this is a national problem
24 and not just a Kentucky problem. All I have to say is
25 it's going to affect everybody. It's not just

1 affecting the low-income. It's going to affect a lot
2 of people that are border line and don't qualify for
3 assistance and any increase in their bill is going to
4 be a hardship on them. So I just encourage the
5 commission to look at all the alternatives before
6 tacking anything on to a bill that is already
7 increasing.

8 We have winter help, it's -- Columbia had it
9 Monday. Delta has it. I don't deal in gas that much,
10 but I'm assuming all the utilities have it, and I
11 would just encourage anybody that can afford it to
12 check off on winter help and that's voluntary and that
13 really will go a long way in assisting people in their
14 bills.

15 Thank you again for the opportunity.

16 MR. HUELSMANN: Thank you, Ms. Cheuvront.
17 As commissioner I guess I get to say a few words. One
18 of the things I want to say at the onset is that we
19 can only -- we only have jurisdiction over the
20 utilities of which the legislature gives us
21 jurisdiction.

22 So one of the problems that we have is CNR
23 and we don't have jurisdiction over them. So it's --
24 we are affectionately referred to in Frankfort as that
25 800-pound gorilla by the utilities. They don't say

1 that to us, but that's how we're known as. But there
2 are -- for some of you, you may -- some of the cities
3 that you may have electric from are non-
4 jurisdictional. So from that standpoint.

5 Well, let me conclude by saying it is
6 absolutely fantastic to see all the people here from
7 the community. We very much appreciate your input.
8 We very much appreciate working together. We want to
9 thank Mr. Jennings for bringing his staff and doing
10 our data responses and being so cooperative in this
11 regard.

12 As I like to say as chairman as the PSC, is
13 working together we can make Kentucky a better place
14 to live. Thank you all for coming. And that
15 concludes the hearing.

16 -0-
17